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Japan: Chinese Corn Displacing US Shipments

Summary

China's corn sales are taking a toll on US agricultural sales to Japan. The higher quality of the Chinese product and the desire of Japanese trading companies--Japan's major grain importers--to maintain access to the Chinese market appear to be the key factors behind the switch from the US product. Beijing has explicitly linked purchases of Japanese goods to the quantity of Japanese imports from China, and corn is one of the few Chinese commodities the traders can market in large amounts in Japan. Although US sales are not likely to decline much further, we expect sustained Chinese competition to prevent US suppliers from regaining their historical share of Japan's corn market, even if current quality problems with US corn are resolved. [redacted]

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This memorandum was prepared by [redacted] Office of East Asian Analysis. Information available as of 17 June 1986 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA, [redacted].

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The Shift Away From US Corn

Over the last decade, Japan's imports of US grain have accounted for about two-thirds of its \$7 billion annual agricultural purchases from the United States. Last year, however, the value of Japan's grain purchases from the United States fell by over 20 percent, in part because of declining world commodity prices. In volume terms, the decline in US sales was less marked--about 14 percent--but still contrasts sharply with increased Japanese grain purchases from other countries. The reduction in the volume of US grain exports to Japan was almost entirely accounted for by decreased corn shipments, which make up almost half of all grain exports to Japan. Japan's purchases of US grains other than corn slipped by less than 1 percent in 1985. [Redacted]

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The recent decline in Japan's purchases of US grain was almost entirely offset by a sharp increase in imports from China (see figure 1). China provides US grain dealers with their first--and to date only--competition for a significant portion of the Japanese corn market. In contrast, Japanese imports of other grains have been geographically diverse for some time (see figure 2). [Redacted]

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Quality appears to be a major factor in Japan's diversification of corn imports.

[Redacted] Japanese importers and Agricultural Ministry officials have repeatedly cited the poor quality of recent US corn shipments--particularly high moisture content and the presence of foreign materials--as a reason for decreasing purchases. These quality problems reduce nutrient content and accelerate spoilage, sometimes making significant proportions of shipments unusable. In contrast, Chinese crops are picked and handled by hand, avoiding problems such as moisture contamination--because of more thorough drying procedures--and kernel breakage. [Redacted]

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We believe the price advantage enjoyed by China is a less important consideration.¹ Japan imported a fairly steady proportion of its grain from the United States in the past despite year-to-year fluctuations in relative prices (see figure 3). High Japanese food prices--a reflection of the protection accorded the agricultural sector--also provide a cushion for Japanese grain importers, allowing them to be relatively less sensitive to price fluctuations. On the other hand, grain traders are concerned with supplier reliability. On this score, Beijing is doing well because of the high quality of Chinese corn and the proximity of China's grain exporting regions to Japan. In addition, the high priority Beijing places on obtaining hard currency from exporting corn to Japan ensures that shipments will continue regardless of fluctuations in Chinese production. [Redacted]

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For its part, Beijing is attempting to push Japan to increase grain imports by linking them to China's purchases of Japanese manufactured goods. Press reports indicate that in May China threatened to turn away a Japanese trade mission if the delegation did not provide an estimate of grain imports. According to other press

¹ At present, Chinese corn costs Japanese importers on average about 5 percent less than US shipments, although prices vary greatly from deal to deal and thus make average figures somewhat misleading. [Redacted]

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[Redacted]

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Figure 1

Japan's Corn Imports

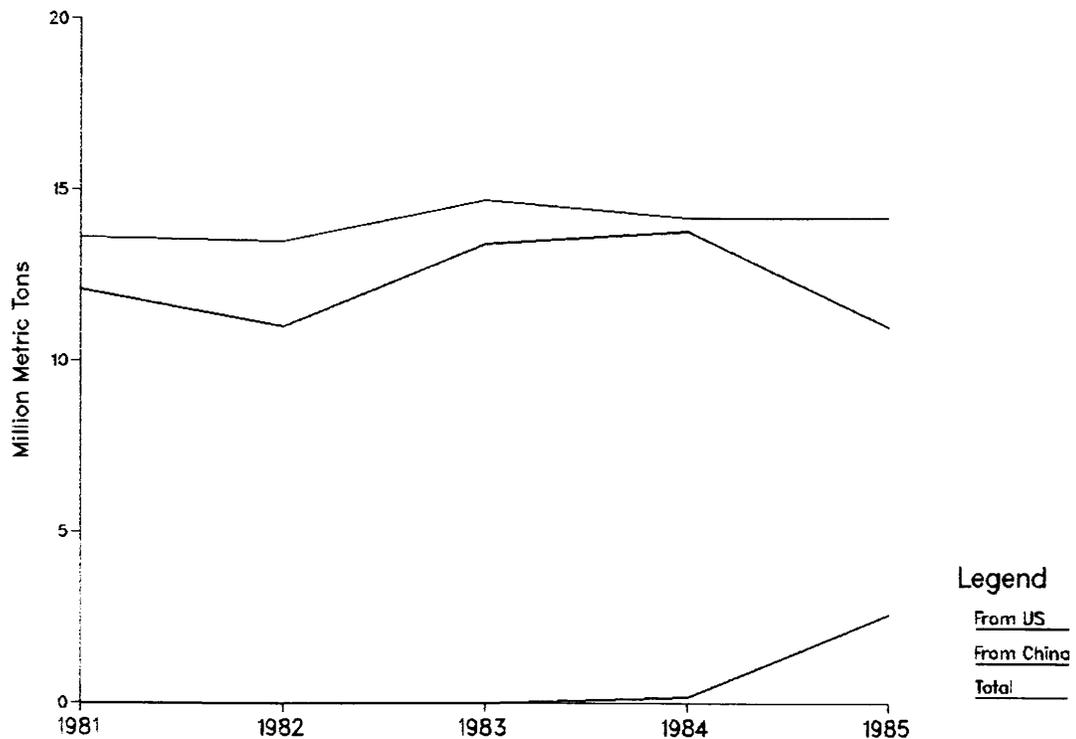


Figure 2

US Non-corn Grain as a Percentage of Japan's Imports of Non-corn Grain

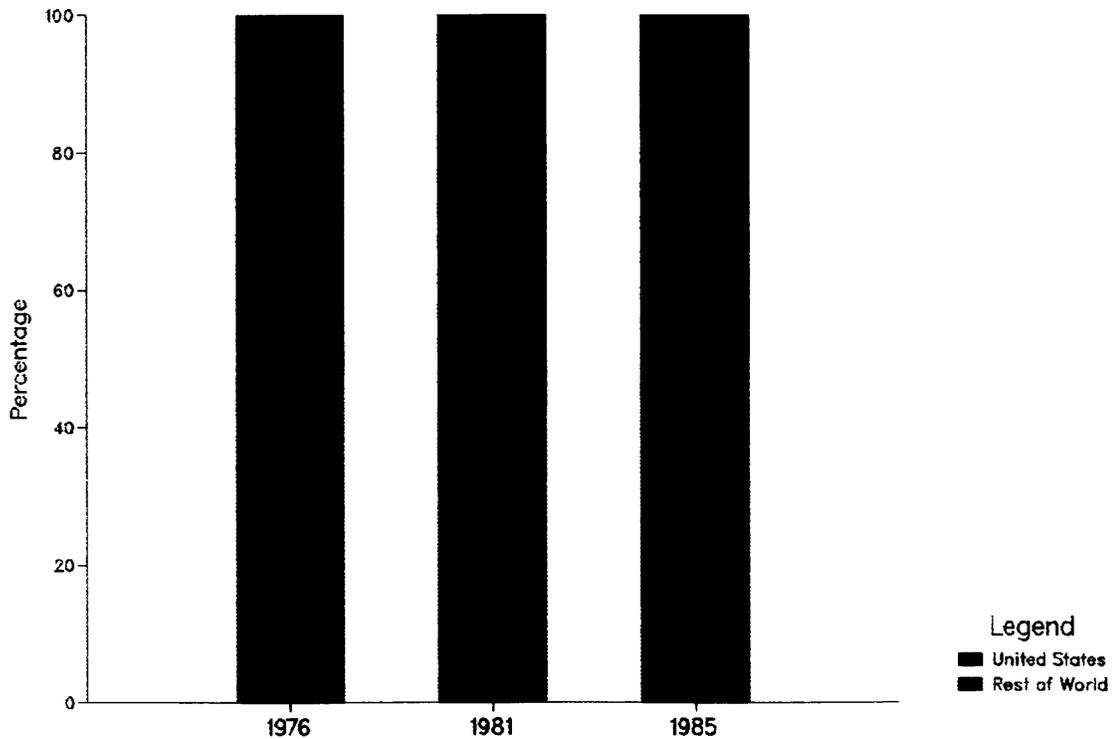
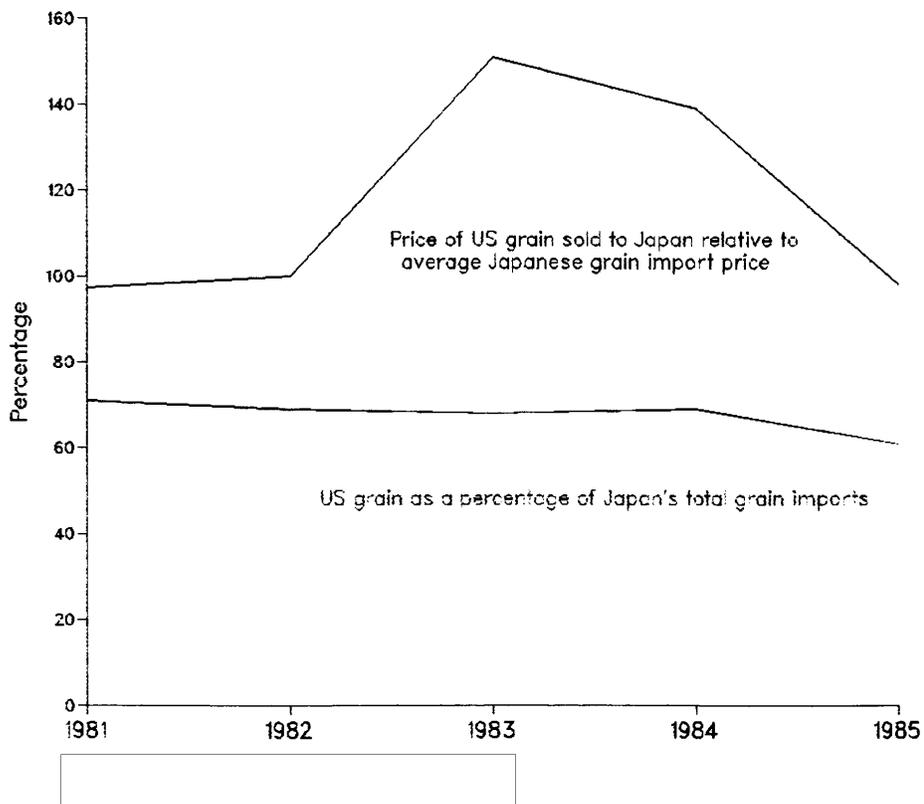


Figure 3

US Grain Exports to Japan: Price and Quantity Relative to Japan's Total Grain Imports



[Redacted]

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reports, moreover, Beijing has said it will give preference to corn-importing firms when placing machinery orders. Such trade-offs are attractive to the large Japanese trading companies that import most of Japan's grain. Six of Japan's seven largest trading companies import corn from China, and each firm is involved in trade and construction projects in China. [Redacted]

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Outlook

The factors that have allowed China to capture 20 percent of Japan's corn import market over the last 18 months will probably persist, in the process keeping the US share below its historical level:

- China does not plan to abandon the handpicking of corn, and thus its quality will exceed that of US products. The quality gap may narrow, however, as both the Japanese and US sides try to improve the situation. For example, a major US grain exporter this spring opened a feed processing plant in Japan, and Japanese trading companies have recently purchased grain elevators in the United States. Complaints about the quality of US corn could decrease, because Japanese purchasers will be able to monitor quality more thoroughly before the grain is shipped.
- Beijing, motivated by its need for foreign exchange, will probably continue to undercut US prices and to press trading companies to expand corn purchases. We expect that these actions, which may become more aggressive as oil revenues slip, will further boost sales.
- [Redacted] a major Japanese trading company plans to accept corn as payment for construction of shipping and grain storage facilities at several locations in China. These projects will increase China's grain export capacity, and possibly its corn exports to Japan. [Redacted]

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Future growth in Japanese demand for grain could permit US farmers to return the volume of exports to past levels, despite China's inroads into Japan's corn market, although such a scenario looks improbable. [Redacted]

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[Redacted] the Japanese Agriculture Ministry believes grain imports will stagnate in the near term because Japan's food consumption is unlikely to increase rapidly. [Redacted]

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Tokyo plans no efforts to encourage imports of US grain at the expense of other suppliers. [Redacted]. Despite the Japanese Government's hands-off approach, we do not expect the volume of US grain exports to Japan to slip much further in the near-to-middle term. Shortages and transportation problems will probably limit China's additional agricultural export efforts to soybeans. We doubt US soybean suppliers will be as easy to displace as corn exporters, however, because US soybeans do not suffer from quality problems. [Redacted]

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